

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
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MUNICH FOR RFE

E.O. 11652: N/A
TAGS: EGEN, EALR, ECON, HU
SUBJECT: GOH INCREASES PRESERVED PRODUCE, COFFEE PRICES

REF: (A) 76 BUDAPEST 4251, (B) 76 BUDAPEST A-86, (C)
76 BUDAPEST A-64

1. REFLECTING POLICY THAT CONSUMER PRICES (IN THE WORDS
OF CHAIRMAN OF STATE PRICE ANELSUPPLY BOARD CSIKOS-NAGY)
BE QTE IN PROPORTION TO VALUES UNQTE, GOH JANUARY 8
ANNOUNCED IMMEDIATE PRICE RISES FOR PRESERVED AND FROZEN
FRUITS AND VEGETABLES AND COFFEE

2. PRICE OF PRESERVED FRUIT AND FRUIT PRODUCTS INCREASED
BY AN AVERAGE OF 10 PERCENT; PRICE OF PRESERVED VEGETABLES
BY 17 PERCENT. FROZEN FRUIT AND VEGETABLE PRICES ROSE
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26 PERCENT. THESE INCREASES PASS ON TO CONSUMER SOME OF
HIGHER PRODUCER PRICES FOR FRUITS AND VEGETABLES
INSTITUTED AT BEGINNING OF YEAR TO SPUR OUTPUT (RESUB),
IN ADDITION TO INCREASED COSTS OF INDUSTRIAL PRODUCTION.

3. COFFEE PRICES ARE 30 PERCENT HIGHER (INSTANT COFFEE,
15 PERCENT), AND POPULAR EXPRESSO SOLD IN THOUSANDS OF

BUDAPEST COFFEE SHOPS WILL ALSO RISE. (RESTAURANTS, COFFEE SHOPS AND BARS HAVE SOME FLEXIBILITY IN THE PRICES THEY CHARGE FOR EXPRESSO.) DOUBLING OF COFFEE PRICES ON WORLD MARKETS WAS CITED BY GOH TO JUSTIFY INCREASES.

4. ACCORDING TO POLICY STATEMENTS BY CSIKOS-NAGY IN OCTOBER 1976 AND AGAIN IN EARLY JANUARY, CONSUMER PRICES MUST BE CHANGED FROM TIME TO TIME TO REFLECT QTE INTERNATIONALLY GAUGED SOCIAL SIGNIFICANCE OF INDIVIDUAL PRODUCTS UNQTE AND INCREASES ON WORLD MARKETS. ACCORDING TO CSIKOS-NAGY, MARKET PRICES WHICH ARE ALLOWED TO RESPOND TO SUPPLY AND DEMAND IN HUNGARY WILL ONLY RAISE OVERALL CONSUMER PRICE LEVEL BY AT MOST 2 PERCENT IN 1977. REMAINDER OF GENERAL CONSUMER PRICE LEVEL INCREASE (5 PERCENT IN 1976, AND ESTIMATED TO BE 3.8-4 PERCENT IN 1977) RESULTS FROM OFFICIALLLY INSTITUTED PRICE CHANGES. IN 1977, 1.1 PERCENT OF THE PLANNED OVERALL INCREASE REFLECTS JULY 1976 MEAT PRICE INCREASES, WHICH WERE ONLY IN EFFECT DURING LAST HALF OF 1976 (REF C). OTHER MAJOR GOVERNMENT ACTIONS WILL RAISE CONSUMER PRICES ADDITIONAL 0.7-0.9 PERCENT. AVERAGE HUNGARIAN CONSUMER SPENDS 3 PERCENT OF HIS TOTAL BUDGET ON POTATOES, FRUITS AND VEGETABLES, AND HIGHER THAN PLANNED CONSUMER PRICES FOR FRESH PRODUCE IN 1976 (NEARLY 30 PERCENT) HAS NOW BEEN CARRIED OVER TO PRESERVED PRODUCTS.

5. COMMENT: GIVEN GROWING POPULARITY IN HUNGARY OF LIMITED OFFICIAL USE

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PRESERVED AND FROZEN FRUITS AND VEGETABLES, AND MAGYAR ADDICTION TO COFFEE, THIS LATEST INCREASE WILL NOT BE POPULAR. PRICES OF OTHER MAJOR FOODSTUFFS, HOWEVER, HAVE ALREADY RISEN AND LATEST MOVE IS RATIONAL STEP TO MAINTAIN PROPER PRICE PROPORTIONS. BY INTRODUCING MAJOR CHANGE NOW, BEFORE FRESH FRUITS AND VEGETABLES HIT MARKET IN SPRING, GOH APPARENTLY SEEKING TO SPREAD OUT PRICE INCREASES RATHER THAN HAVE THEM ALL OCCUR AT ONCE, SINCE IT IS POSSIBLE THAT THE CONTROLLED PRICES OF FRESH PRODUCE COULD BE HIGHER THAN PLANNED DURING COMING SPRING AND SUMMER. IF IT HOLDS LINE ON OTHER CONSUMER PRODUCTS (WHICH WERE INCREASED IN 1975 AND 1976) GOH HOPES TO KEEP OVERALL CONSUMER PRICE INDEX INCREASE BELOW 4 PERCENT. IT SHOULD BE REMEMBERED, HOWEVER, THAT OFFICIAL CONSUMER PRICE LEVEL PROBABLY BASED ON "MARKET BASKET" OF LESS WELL-OFF WORKER AND PEASANT. INFLATION RATE FOR SOPHISTICATED CITY DWELLERS IS UNDOUBTEDLY HIGHER. GOH HAS NOT HESITATED TO INCREASE

PRICES OF FOOD ITEMS IMPORTANT TO AVERAGE CONSUMER,
BUT ITS POLICY OF "PUBLIC EDUCATION" AND LETTING ONE
SHOCK WEAR OFF BEFORE ANOTHER HITS (SUGAR, DECEMBER
1975; MEAT, JULY 1976; COFFEE AND PRESERVED PRODUCE,
JANUARY 1977) HAVE ENABLED IT TO KEEP SOME REALISM IN
ITS PRICE STRUCTURE WITHOUT CAUSING MAJOR UNREST.
MUDD

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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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